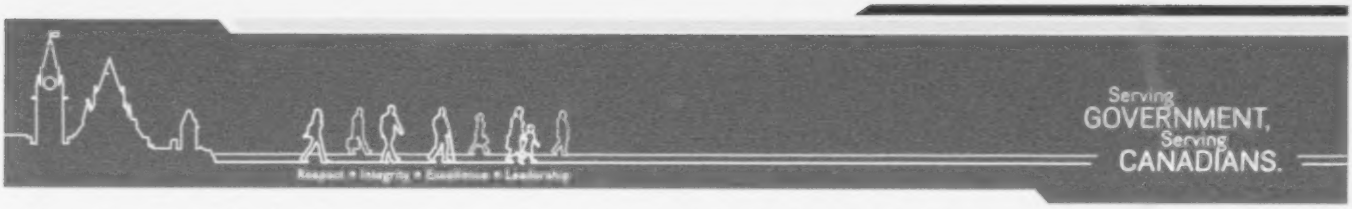
Public Works and Government Services Canada

Travaux publics et Services gouvernementaux Canada

Canada



PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

QUARTERLY FINANCIAL REPORT

For the quarter ended September 30, 2013

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1. Introduction

This Quarterly Financial Report should be read in conjunction with the *Main Estimates*, *Supplementary Estimates*, and *Canada's Economic Action Plan* (*Budgets 2013*, *2012* and *2011*). It has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Alignment Architecture

Public Works and Government Services Canada (PWGSC) plays an important role in the daily operations of the Government of Canada. The Department is its principal treasurer, accountant, central purchasing agent, linguistic authority, and real property manager. The department's vision is to excel in government operations, and its mission is to deliver high-quality services and programs that meet the needs of federal organizations and ensure sound stewardship on behalf of Canadians.

The Department, founded in 1841, was instrumental in the building of our nation's canals, roads and bridges, the Houses of Parliament, post offices and federal buildings across the country. Today, PWGSC has evolved into a sophisticated operational arm of government that employs approximately 12,200 permanent employees working in locations across Canada, with its Headquarters in the National Capital Area. PWGSC:

- Injects more than $14 billion annually into the Canadian economy through government procurement;
- Handles over $2 trillion in cash flow transactions through the Receiver General function;
- Issues more than 14.2 million federal pay and pension payments;
- Provides accommodation to parliamentarians and more than 270,455 public servants in 1,796 locations across Canada;
- Provides translation and interpretation services, annually, for more than 1,700 parliamentary sittings and parliamentary committee meetings, and translates more than one million pages of text on behalf of other federal organizations; and
- Processes and images more than 20 million pages, annually, for federal government departments and agencies.

Further details on PWGSC's authority, mandate and programs may be found in the *Report on Plans and Priorities*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting also known as modified cash accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying *Statement of Authorities* compares PWGSC's spending authorities granted by Parliament to those used by the Department. Information in the Statement of Authorities is consistent with that in the *Main Estimates*.

The authority of Parliament is required before monies can be spent by the government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation granting statutory spending authority for specific purposes.

PWGSC uses the accrual method of accounting to prepare and present its annual Consolidated Departmental Financial Statements (DFS) that are published in the *Departmental Performance Report*. However, the spending authorities voted by Parliament remain on a modified cash basis of accounting.

The main difference between the QFR and the DFS is the timing of when revenues and expenses are recognized. The QFR reports revenues only when the money is received and expenses only when the money is paid out. The DFS reports revenues when they are earned and expenses when they are incurred. In the latter case, revenues are recorded even if cash has not been received and expenses are incurred even if cash has not yet been paid out.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, 2012, after the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-13 Main Estimates. Therefore, amounts presented for fiscal year 2012-13 in Table 1 – Statement of Authorities, do not include savings measures announced in Budget 2012.

In fiscal year 2012-13, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-14, the changes to departmental authorities were reflected in the 2013-14 Main Estimates tabled in Parliament and are included in Table 1 for fiscal year 2013-14.

1.3 PWGSC's Financial Structure

PWGSC provides services to many government departments, agencies and Crown corporations through a variety of funding mechanisms. This includes budgetary authorities that are comprised of voted and statutory authorities, as well as non-budgetary authorities. The voted budgetary authorities include Operating Expenditures, Vote-Netted Revenues and Capital Expenditures, while the statutory authorities are mainly comprised of Revolving Funds, the Employee Benefit Plan and Payments in Lieu of Taxes (PILT). The non-budgetary authorities consist primarily of the Seized Property Working Capital Account (see description below).

PWGSC's complex financial structure may result in significant differences on a quarterly basis which are due to timing and are resolved by year end. These are summarized as follows:

- For the most part, PWGSC delivers its services on a cost recovery basis, generating revenues via Revolving Fund ("the Funds") organizations and programs within the Operating Vote. These organizations and programs are mainly designed to provide services to other government departments, and are expected to recover the cost of their operations through revenues. However, the costs incurred by the Funds are usually disbursed prior to invoicing the client, which generally occurs upon completion of a project or services rendered, and thus revenues may be collected in a subsequent quarter.

- PWGSC manages a variety of real property projects that progress through phases from planning to funding and from procurement to construction. Historical trends have shown that expenditures against these projects are not incurred evenly throughout the year; thus, quarter-to-quarter fluctuations are normal.

- PILT issued by PWGSC are funded through a statutory vote and paid on behalf of other participating federal departments. Payments are subsequently recovered from the participating departments and are recorded as statutory grants in the Public Accounts of Canada. A variation in the "Payment in lieu of taxes to

municipalities and other taxing authorities" account can occur due to a difference between the time a payment is made and the time it is recovered from another department.

- PWGSC also manages seized property for the Government of Canada pursuant to the *Seized Property Management Act*. The financial management of this activity is performed through the non-budgetary Seized Property Working Capital Account. Charged to this Account are expenditures and advances made to maintain and manage any seized or restrained property. PWGSC recovers its costs from this Account once the property owner loses the right to the property and it is disposed of.

2. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

2.1 Significant changes to authorities

When compared to the same quarter in the previous year, PWGSC's **Authorities Available for Use decreased by $50.8 million** (2012-13: $2,670.4 million; 2013-14: $2,619.6 million) as reflected in the *Statement of Authorities* (Table 1, page 9). Major reasons for the decrease are outlined below:

Year-Over-Year Variances in Authorities Available for Use

(in millions of dollars)	Operating	Capital	Contribution	Budgetary Statutory Authorities	Total Variances*
Terrasses de la Chaudière	(11.8)	61.7			**49.9**
Transformation of Pay Administration	30.6	(1.8)		3.5	**32.3**
RCMP E Division Headquarters	5.3	26.0			**31.3**
Rehabilitation of the Parliamentary Precinct	(2.8)	16.3			**13.5**
Accommodation	8.2				**8.2**
Paylist	(7.3)				**(7.3)**
Canadian Innovation Commercialization Program (CICP)	(22.1)			(0.1)	**(22.2)**
Deficit Reduction Action Plan	(22.3)		(4.9)	(0.9)	**(28.1)**
Carry Forward	(40.0)	(21.2)			**(61.2)**
Strategic Review	(34.6)	(32.0)			**(66.6)**
Other	(33.7)	6.0	(0.6)	27.7	**(0.6)**
CUMULATIVE VARIANCE IN AUTHORITIES AVAILABLE FOR USE	**(130.5)**	**55.0**	**(5.5)**	**30.2**	**(50.8)**

Groupings can change between quarters due to materiality of initiatives.
* Amounts may not balance with other public documents due to rounding.

The **net decrease of $50.8 million** can be explained by:

Terrasses de la Chaudière – increase of $49.9 million

This one-time funding is to purchase Les Terrasses de la Chaudière, a key building complex in Gatineau, Québec. This is not a new space as the federal government already occupies the complex. During the initial construction, the Government of Canada had entered into a long-term lease-purchase agreement. By exercising the purchase option, the government is leveraging equity built up over three decades through lease payments and capital improvements.

Transformation of Pay Administration Initiative – increase of $32.3 million

The seven-year program of work under the Transformation of Pay Administration Initiative is to support the continued implementation of the Consolidation of Pay Services in Miramichi, New Brunswick, and the modernization of the 40 year old pay system. This planned funding is to hire, relocate, train and accommodate compensation employees in 2013-14. The initiative is on time and on budget.

RCMP E Division Headquarters – increase of $31.3 million

This transfer of funding from the Royal Canadian Mounted Police (RCMP) to PWGSC is to cover costs related to final alteration of office space and operation of the RCMP E Division Headquarters in Surrey, British Columbia. This new Government of Canada facility was completed in 2012-13 on time, on budget, and on scope through a Public-Private Partnership (P3).

Rehabilitation of the Parliamentary Precinct – increase of $13.5 million

This funding is to continue the implementation of the Long Term Vision and Plan (LTVP), to ensure preservation of the Parliament Buildings as heritage assets and national symbols in accordance with the approved five-year program of work which began in 2010-11. The projects for the LTVP are on time and on budget.

Accommodation – increase of $8.2 million

As the federal government's primary common service provider, PWGSC provides accommodation for government departments and agencies. This funding is mainly for 2013-14 accommodation requirements of various government departments and agencies to meet their program objectives.

Paylist – decrease of $7.3 million

In 2012-13, PWGSC received additional funding for one-time severance payments paid out to employees, as a result of ratified changes to collective agreements. In 2013-14, PWGSC has not yet requested funding to meet Paylist requirements and therefore they cannot be reflected in PWGSC's authorities. These funds are expected to be received later in the fiscal year.

Canadian Innovation Commercialization Program (CICP) – decrease of $22.2 million

The CICP connects small and medium-sized enterprises with federal departments and agencies that have a need for innovative products and services. The decrease is attributed to the termination of the two-year pilot phase of CICP announced in Budget 2010. Budget 2012 committed $95 million to this program, now called the Build in Canada Innovation Program (BCIP), over three years and $40 million permanently per year thereafter. The program now includes a military procurement component.

Deficit Reduction Action Plan – decrease of $28.1 million

In accordance with Budget 2012, PWGSC realized additional savings in 2013-14 mainly attributed to:

- Space recapturing and space standards modernization;
- Leveraging technology; streamlining internal departmental operations; and improving efficiency in government operations; and
- Sunsetting of the Canadian Language Sector Enhancement Program.

Carry Forward of Unused Funds from Previous Fiscal Year – decrease of $61.2 million

Treasury Board Secretariat allows departments to transfer a portion of unused funds from one fiscal year to the following year. In 2012-13, PWGSC received this authority in the second quarter. In 2013-14, it has not yet been granted and therefore cannot be reflected in PWGSC's authorities.

Strategic Review **– decrease of $66.6 million**

In accordance with Budget 2011, PWGSC realized additional savings in 2013-14 mainly due to the:

- Implementation of more cost effective accommodation solutions in the National Capital Area; and
- Expansion of the use of electronic banking; procurement modernization; standardization of desktop computing; and elimination of duplication and overlap of administrative support functions.

Other **– decrease of $0.6 million**

This net decrease of $0.6 million is the result of funding variances in miscellaneous projects and activities (Operating), such as transfers to other government departments. It also includes a $19 million permanent transfer from Operating to Budgetary Statutory Authorities to normalize the treatment of Employee Benefit Plan in the real property portfolio.

2.2 Significant changes to Year-to-Date Net Expenditures

As presented in the *Departmental Budgetary Expenditures by Standard Object* (Table 2, page 11), the **Total Net Budgetary Expenditures have increased by $167.0 million** when compared to the same quarter of the previous year (2012-13: $1,285.3 million; 2013-14: $1,452.3 million).

The proportion of planned and actual expenditures in each major expenditure category is consistent with the previous year. Overall, the expended portion represents 55% of annual planned expenditures for 2013-14, while it represented 48% during the second quarter of 2012-13.

Year-Over-Year Variances in Net Expenditures

(in millions of dollars)	2013-14 Year to date used at quarter end	2012-13 Year to date used at quarter end	Year Over Year Variance
Personnel	585.2	544.4	**40.8**
Professional and Special Services	496.9	465.2	**31.7**
Rentals	596.1	550.5	**45.6**
Repairs and Maintenance	321.1	350.1	**(29.0)**
Acquisition of Land, Buildings & Works	165.4	132.7	**32.7**
Total Revenues Netted Against Expenditures	(1,131.9)	(1,185.6)	**53.7**
Other Expenditures	419.5	428.0	**(8.5)**
Total Net Budgetary Expenditures	**1,452.3**	**1,285.3**	**167.0**

The **net increase of $167.0 million** is mainly attributable to:

– increase of $40.8 million

- Severance payments paid out to employees during 2013-14, due to ratified changes to some collective agreements. Eligible employees could opt for a one-time payout of their accumulated severance pay.

– increase of $31.7 million

- Continued work on the Long Term Vision and Plan to preserve the Parliament Buildings.
- The increase is partially compensated by the completion of construction of three new buildings in Gatineau, QC.

– increase of $45.6 million

- Timing difference in the payment of rental costs. PWGSC will be reimbursed for these costs by other government departments to whom the service is provided.
- Temporary additional space is required due to construction and renovation of several buildings in the real estate portfolio managed by PWGSC.

– decrease of $29.0 million

- Fluctuation in business volume associated with projects for Correctional Service of Canada (CSC) to construct and upgrade prisons across Canada (Bill C-25: Truth in Sentencing Act).

– increase of $32.7 million

- Purchase of Terrasses de la Chaudière, a key building complex in Gatineau, Quebec.
- The increase is compensated by the completion of the RCMP H Division in Nova Scotia and the E Division in British Columbia in 2012-13.

– decrease of $53.7 million

- Fluctuation in business volume associated with projects for CSC to construct and upgrade prisons across Canada (Bill C-25: Truth in Sentencing Act).

– decrease of $8.5 million

- Composed of decrease in other major expenditure categories not listed above. The decrease is due to completion of various major projects.

3. Risks and Uncertainties

PWGSC integrates risk management principles into business planning, decision-making and organizational processes to minimize negative impacts and maximize opportunities across its diverse range of services and operations. Risk management is carried out through PWGSC in accordance with the Departmental Risk Profile, the internal Integrated Risk Management Policy and the TBS Framework for the Management of Risk.

The following key risks were identified as having a potential financial impact:

- PWGSC's reliance on cost recovery presents a risk in an environment of reduced expenditures on the part of client departments. To mitigate this risk, PWGSC is working closely with other departments through its client service network to identify these changing requirements and their impact on PWGSC. Thus far, the impact on revenues has been manageable.

- Risk associated with complex, transformational and interdepartmental major projects and procurements. In order to address these risks, PWGSC has implemented disciplined investment and project management processes; established service agreements and service standards with clear identification of responsibilities; ensured sound contract management; engaged early with client departments and other stakeholders; and developed the Departmental Integrated Investment Plan (IIP).

4. Significant Changes to Operations, Personnel and Programs

While PWGSC has not seen any significant changes to its operations, personnel and programs in the second quarter of 2013-14, the Department is continually transforming in order to deliver on its budget reduction initiatives. Further information on these initiatives may be found in Section 5 below.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that are being implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and modernize and reduce the back office functions.

PWGSC is committed to achieving Budget 2012 cumulative and ongoing savings of $177.6 million by 2018-19. Savings of $1.5 million were achieved in 2012-13. For 2013-14, PWGSC is on target to achieve savings of $28.1 million; savings will increase to $85.3 million in 2014-15 and $114.2 million in 2015-16. These savings support fiscal responsibility and a more effective use of departmental resources.

While many of the savings will be achieved this fiscal year and next, the real property initiatives will be introduced over the next six years as leases and occupancy agreements expire. With these changes, and building on progress made in recent years, PWGSC is transforming to better serve its clients through enhanced efficiency and effectiveness, and sound and robust management.

The savings initiatives for 2013-14 are in the following areas:

1. **Accommodation and Real Property Services:** Contributing to a more affordable public service by reducing office accommodation costs. This will be achieved by working with departments to recapture real property office space in response to reduced accommodation needs. PWGSC has also developed new real property space standards consistent with leading practices, resulting in a reduction in the total amount of space for government office facilities by approximately 10% by 2018-19.

2. **Internal Services:** Achieving savings by concentrating on core functions, streamlining processes and eliminating redundancies and overlap, thereby ensuring value for taxpayer money. Savings will be achieved by:

    - Reductions in internal overhead and information technology (IT) applications;

- Rationalizing redundant print services;
- Modernizing IT infrastructure to reduce costs; and
- Winding down of Investigations and Litigation Office.

3. **Specialized Programs and Services:** Achieved by optimizing interdepartmental coordination on Greening Government Operations and sunsetting the Canadian Language Sector Enhancement Program in 2012-13.

Approved by:

Michelle d'Auray, Deputy Minister
Public Works and Government Services Canada

Gatineau, Canada
November 29, 2013

Alex Lakroni, Chief Financial Officer
Public Works and Government Services Canada

Gatineau, Canada
November 29, 2013

Table 1 - STATEMENT OF AUTHORITIES (unaudited)

For the quarter ended September 30, 2013

(In thousands of dollars)	Fiscal year 2013-2014			Fiscal year 2012-2013		
	Total available for use for the year ending March 31, 2014 1) 2) 4) 5)	Used during the quarter ended September 30, 2013	Year to date used at quarter end	Total available for use for the year ending March 31, 2013 1) 2) 3)	Used during the quarter ended September 30, 2012	Year to date used at quarter end
Vote 1						
Gross Operating Expenditures	3,269,323	876,229	1,616,631	3,252,548	857,476	1,570,066
Vote-Netted Revenues	(1,363,767)	(328,671)	(584,601)	(1,216,499)	(310,570)	(588,362)
Net Operating Expenditures	**1,905,556**	**547,558**	**1,032,030**	**2,036,049**	**546,906**	**981,704**
Vote 5 - Capital Expenditure	**573,196**	**125,087**	**243,169**	**518,185**	**120,389**	**181,796**
Vote 10 - Contribution Expenditures [4]	-	-	-	**5,497**	**859**	**2,295**
Revolving Fund Authorities						
Real Property Services Revolving Fund						
Gross Expenditures	1,613,309	295,084	496,074	1,790,019	280,965	512,063
Revenues	(1,603,309)	(303,220)	(450,113)	(1,780,019)	(326,043)	(483,234)
Net Expenditures	10,000	(8,136)	45,961	10,000	(45,078)	28,829
Translation Bureau Revolving Fund						
Gross Expenditures	183,268	39,211	80,013	198,344	39,248	76,429
Revenues	(176,246)	(38,571)	(70,033)	(191,184)	(45,403)	(76,931)
Net Expenditures	7,022	640	9,980	7,160	(6,155)	(502)
Optional Services Revolving Fund						
Gross Expenditures	143,244	19,550	30,862	104,826	19,945	28,188
Revenues	(134,760)	(13,278)	(27,182)	(99,826)	(20,288)	(29,511)
Net Expenditures	8,484	6,272	3,680	5,000	(343)	(1,323)
Real Property Disposition Revolving Fund [5]						
Gross Expenditures	-	-	-	7,293	682	1,000
Revenues	-	-	-	(12,000)	(3,347)	(7,563)
Net Expenditures	-	-	-	(4,707)	(2,665)	(6,563)
Total of All Revolving Funds						
Gross Expenditures	1,939,821	353,845	606,949	2,100,482	340,840	617,680
Revenues	(1,914,315)	(355,069)	(547,328)	(2,083,029)	(395,081)	(597,239)
Total Revolving Fund Net Expenditures	**25,506**	**(1,224)**	**59,621**	**17,453**	**(54,241)**	**20,441**

Table 1 – STATEMENT OF AUTHORITIES - CONTINUED (unaudited)

For the quarter ended September 30, 2013

(In thousands of dollars)	Fiscal year 2013-2014			Fiscal year 2012-2013		
	Total available for use for the year ending March 31, 2014 1) 2) 4) 5)	Used during the quarter ended September 30, 2013	Year to date used at quarter end	Total available for use for the year ending March 31, 2013 1) 2) 3)	Used during the quarter ended September 30, 2012	Year to date used at quarter end
Other Budgetary Statutory Authorities						
Contributions to employee benefit plans	114,739	28,685	57,370	92,626	23,156	46,313
Minister of PWGSC Salary and motor car allowance	79	26	39	78	20	39
Refunds of amounts credited to revenues in previous years	2	2	2	46	-	46
Spending of proceeds from the disposal of surplus Crown assets	486	4	30	414	48	51
Payment in lieu of taxes to municipalities and other taxing authorities 2)	-	(148,293)	60,016	-	(175,744)	52,604
Total Other Budgetary Statutory Authorities	**115,306**	**(119,576)**	**117,457**	**93,164**	**(152,520)**	**99,053**
Total budgetary authorities	**2,619,564**	**551,845**	**1,452,277**	**2,670,348**	**461,393**	**1,285,289**
Non-Budgetary Authority						
Seized Property Working Capital Account	-	(7,847)	(11,717)	-	(424)	(557)
TOTAL AUTHORITIES	**2,619,564**	**543,998**	**1,440,560**	**2,670,348**	**460,969**	**1,284,732**

Net decrease of $50.8 million

Notes:

1) Includes only Authorities available for use and granted by Parliament at quarter-end.

2) Consistent with the presentation in the Main Estimates, Total available for use for the year, for both 2012-13 and 2013-14, under Payment in Lieu of Taxes (PILT), is presented net of planned PILT made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

3) Total available for use does not reflect measures announced in Budget 2012.

4) The program under Contribution Expenditures (Canadian Language Sector Enhancement Program) ended in 2012-13.

5) The Real Property Disposition Revolving Fund closed as of the end of 2012-13.

Table 2 – DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (unaudited)

For the quarter ended September 30, 2013

(in thousands of dollars)	Fiscal year 2013-2014			Fiscal year 2012-2013		
	Planned expenditures for the year ending March 31, 2014 1) 2)	Expended during the quarter ended September 30, 2013	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2013 1) 2) 3)	Expended during the quarter ended September 30, 2012	Year to date used at quarter end
Expenditures						
Personnel	1,145,220	291,888	585,248	1,042,153	276,452	544,382
Transportation and communications	95,014	20,120	37,526	91,421	19,322	37,063
Information	10,795	2,680	4,481	12,957	2,435	3,846
Professional and special services	1,499,007	327,912	496,888	1,465,451	306,130	465,158
Rentals	999,325	293,132	596,125	977,667	239,629	550,453
Repair and maintenance	1,100,803	136,036	321,143	1,251,344	208,169	350,143
Utilities, materials and supplies	239,597	40,057	67,444	214,970	44,835	73,300
Acquisition of land, buildings and works	216,034	124,346	165,356	235,500	85,216	132,687
Acquisition of machinery and equipment	77,072	9,429	11,739	81,775	7,279	10,237
Transfer payments 2)	-	(148,293)	60,016	5,497	(174,886)	54,898
Other subsidies and payments	514,779	138,277	238,240	591,141	152,463	248,723
Total gross budgetary expenditures	**5,897,646**	**1,235,584**	**2,584,206**	**5,969,876**	**1,167,044**	**2,470,890**
Less revenues netted against expenditures						
Revolving Funds Revenues	(1,914,315)	(355,068)	(547,328)	(2,083,029)	(395,081)	(597,239)
Vote-Netted Revenues	(1,363,767)	(328,671)	(584,601)	(1,216,499)	(310,570)	(588,362)
Total revenues netted against expenditures	**(3,278,082)**	**(683,739)**	**(1,131,929)**	**(3,299,528)**	**(705,651)**	**(1,185,601)**
TOTAL NET BUDGETARY EXPENDITURES	**2,619,564**	**551,845**	**1,452,277**	**2,670,348**	**461,393**	**1,285,289**

Net increase of $167.0 million

Notes:

1) Includes only Authorities available for use and granted by Parliament at quarter-end.

2) Consistent with the presentation in the Main Estimates, Planned expenditures for the year for both 2012-13 and 2013-14, under Transfer Payments, are presented net of planned Payments in Lieu of Taxes (PILT) made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

3) Planned expenditures do not reflect measures announced in Budget 2012.